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*Foreign Views on Monetary Reform:
The Nairobi Meeting*

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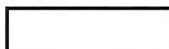
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**Foreign Views on Monetary Reform:
The Nairobi Meeting**

SUMMARY

The monetary reform negotiations leading up to the annual International Monetary Fund (IMF) meeting in Nairobi have brought some agreement on broad principles but little progress beyond that. For the most part, they have been devoted to discussing the US proposal that changes in international reserves be used as a criterion in determining when national economic policies need to be modified. This issue and the conditions for currency convertibility probably will be considered in the reform discussions.

Paris, as usual, has been the most outspoken critic of US proposals. The French believe that, while many of the world's financial problems are the result of unsound US policies, Washington wants to place the adjustment burden on other nations. Paris also is determined to avoid any reforms which might reduce national control over economic policy.

Other European nations, although somewhat more sympathetic to US views, support the French position in several areas. Nevertheless, they probably will try to mediate between Washington and Paris. The EC, as an entity, will play only a minor role in the reform negotiations.

Japan and Canada also are interested in producing an acceptable US-European compromise on reform. Japan played the arbiter's role -- with some success -- at the Tokyo Ministerial meeting. Since the Japanese want to prevent a re-emergence of foreign pressures for further revaluation of the yen, they will join the Europeans in opposing the US adjustment proposal. Ottawa is highly satisfied with its own dollar float and is eager to establish the principle that floating is justified under certain circumstances.

The less developed countries may be a contentious element at Nairobi and in the subsequent negotiations. The oil producers want to make certain that their reserve accumulations will not be penalized. The other less developed countries are primarily interested in firmly establishing the SDR-aid link. The question of Taiwan's continued participation in the IMF will probably not arise at Nairobi.

Note: Comments and queries regarding this publication are welcomed. They may be directed to [redacted] of the Office of Economic Research,

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DISCUSSION

The Nairobi Agenda

1. On 24-28 September, the annual IMF meeting will take place in Nairobi. Delegations representing more than 100 countries will attend. Most of the meeting will be devoted to delegates' speeches, but the assembly will also receive the report of the Committee of Twenty (C-20) on progress in the negotiations on monetary reform. The new IMF Managing Director, H. Johannes Witteveen of the Netherlands, will make his first public appearance in this capacity, having succeeded Pierre-Paul Schweitzer, who held the post for 10 years.

2. The Nairobi meeting marks the end of the first phase in the monetary reform schedule. Many participants will take the opportunity to reiterate their views and note their dissatisfaction with progress in the negotiations. The Deputies to the Committee of Twenty have been unable to meet their goal of having an agreed reform proposal ready for consideration by the C-20 and presentation at Nairobi. Thus the C-20 report probably will merely spell out areas where general agreement has been achieved and note that significant areas of disagreement remain and that some topics have not been adequately addressed.

3. Discussions of monetary reform in Nairobi will include two key inter-related issues:

- The nature of the balance-of-payments adjustment mechanism, including the use of objective indicators, and the distribution of the adjustment burden.
- The conditions for currency convertibility, including restoration of dollar convertibility and funding of the dollar overhang.

Some agreement has been reached on broad principles, but the C-20 Deputies have been unable to go much beyond this point.

4. The less developed countries (LDCs) will be a contentious element in Nairobi. Most LDCs support the principle of monetary reform but are concerned that their interests will be ignored in any "big-power" agreement. As at the Tokyo Ministerial meeting, they will demand preferential treatment and recognition of their need for improved development financing. Despite their concerns, the LDCs are unlikely to attempt to

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disrupt the sessions. The question of Taiwan's continued participation in the IMF probably will not arise at Nairobi.

The Road to Nairobi

5. The initiative for negotiations was taken by the President on 15 August 1971. The rules and procedures established under the 1944 Bretton Woods Agreement had become outmoded because of changes in the world economy. By the early 1970s, the dollar was greatly overvalued, a situation contributing to an unacceptable erosion in the US trade and payments balances. There was also widespread foreign dissatisfaction with the massive accumulation of unwanted dollars. The Bretton Woods system clearly did not sufficiently emphasize balance-of-payments adjustment.

6. Serious negotiations on monetary reform did not begin until the United States outlined its ideas in a speech by Treasury Secretary Shultz at last September's IMF meeting in Washington. Other C-20 members -- some of whom had been highly critical of the United States for withholding its views until then -- welcomed the US proposals. They saw a new US willingness to loosen the ties between progress in the monetary and trade negotiations, to restore dollar convertibility, and to see the dollar's role in international monetary affairs reduced.

7. An apparent consensus emerged relatively early in the negotiations on several major reform principles:

- The new international monetary system would have stable but adjustable par values with floating permitted under certain circumstances.
- There would be an improved balance-of-payments adjustment mechanism under which both surplus and deficit countries would share the adjustment burden.
- A strengthened SDR would serve as the basic reserve asset, reducing gold's monetary role and the reserve role of national currencies.

Although difficulties were foreseen -- particularly in negotiations between the United States and other major participants on mechanics of the adjustment process -- many C-20 delegates expected a draft outline of an agreed reform proposal to be ready for presentation at Nairobi. Jeremy Morse, the Chairman of the C-20 Deputies, publicly predicted that a reformed international monetary system would be in place in only two years.

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8. Subsequent C-20 discussions, including the meeting in Paris on 5-7 September, revealed a sobering gulf between apparent consensus on vague reform principles and agreement on specific rules for the international monetary system. Sharp disagreements, for example, remain on the first reform issue to be considered by the negotiators -- the US suggestion that changes in international reserves be used to indicate payments imbalance and trigger adjustments in economic policies. Morse's compromise proposals, incorporating US and European reform views, were vigorously attacked by the Europeans, who argued that they were too close to the original US suggestions. In fact, the Europeans appeared to retreat from the more conciliatory stance taken in July. They, however, claimed that the US position had hardened.

9. Several important meetings will take place prior to the Nairobi session, making it possible, albeit unlikely, that substantial progress will be made before then. The IMF Governors of the Latin American members and the Philippines will caucus in Rio de Janeiro on 17-19 September, those representing the Commonwealth (Sterling area) in Dar-es-Salaam on 17-20 September, and those representing the French franc area in Libreville on 20-21 September. The EC finance ministers will probably caucus in Nairobi some time before the regular meeting. Finally, and most importantly, the C-20 will meet in Nairobi on 23 September to consider Morse's new draft of a reform outline.



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